



NATIONAL ACADEMY OF PUBLIC ADMINISTRATION

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Before the House Committee on Government Reform
Subcommittee on Government Management,
Finance, and Accountability
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Mr. Chairman:

As President of the National Academy of Public Administration I am pleased to appear before you to provide some interim perspectives on the Academy's review of how financial management can be improved in the federal government. As you know, the Academy is an independent, non-partisan organization chartered by the Congress to give trusted advice. The views presented today are my own and are not necessarily those of the Academy as an institution.

Our review is in response to your request in March where you asked the Academy to reflect on the current set of financial laws, regulations, procedures and current practices. You asked that we consider how best to improve our nation's current financial environment and develop a set of recommendations that would be helpful to the Committee in further strengthening the financial management of the federal government as we move forward in the 21st Century.

In your charge you directed us to be wide ranging in our thinking, but as we discussed the project with your staff several preliminary, broad areas of focus evolved, including:

- Benefits from consolidating the myriad of laws and regulations
- Assessment of the long term objectives for financial management—essentially an examination of where we want to be—rather than what we should make agencies do next

- Methods to increase financial accountability, including better internal controls
- Methods to enhance the strategic focus of financial managers
- What outdated and burdensome requirements and reporting need to be eliminated
- Facilitation of new financial management systems within time lines and budget
- Training and development needs for the financial management community
- Appropriate boundaries for public/private work and collaboration
- What are the key obstacles in reducing the complexity of financial data and making such data more usable to the decision-maker?

We have developed a working group of our Academy Fellows who are thoroughly familiar with the financial management practices of the federal government as well as with industry best practices. These Fellows have extensive hands-on experience as well as academic acumen and will form the core of our working group. One of our Fellows, who is also the Vice-Chairman of the Academy's Board, Mr. Edward DeSeve, is here with me today to give you his feedback and perspective on our discussion to date.

Both Mr. DeSeve and I have served as Chief Financial Officers (CFO) in the federal government—Mr. DeSeve as a Senate confirmed CFO at the Department of Housing and Urban Development, and I served as a career CFO at both the Internal Revenue Service and the Environmental Protection Agency. Mr. DeSeve also served as the Deputy Director for Management at the Office of Management and Budget and was the OMB Controller—again, two Senate confirmed positions. In addition, both of us were Partners in major consulting firms that did extensive business with federal agencies dealing with

financial management systems and problems. I think we both bring first hand experience as do the other members of the working group.

We have established a work plan whereby our Fellows and I will meet with a series of experts across the federal government to receive their input on how best to improve the elements of financial management. We will hold these informational gathering sessions at the Academy and will solicit input from entities such as: the CFO Council and its members; the CIO Council; the Performance community; the Budget community and key representatives from the private sector, including the accounting and consulting professionals.

To date we have held two sessions with members of the CFO community and received wide-ranging comments and suggestions, from both political appointees and members of the Senior Executive Service. Based on comments from these two sessions and input from our Fellows I can share with you a few of the more significant ideas that have emerged—Mr. DeSeve will also give you testimony on additional comments we heard from our interviews. Specifically:

- **We may have focused exclusively on finance systems and process improvements to the exclusion and detriment of better budget systems and program and financial performance.**

There is no doubt that financial management and reporting of financial information has dramatically improved since the initiation of the Chief Financial Officer's Act. Most federal agencies now receive an unqualified audit opinion and many agencies have improved their systems so as to facilitate the preparation of financial statements and provide better information to decision makers. Millions of dollars have been expended in this effort and many more millions will be expended over the next few years, particularly in the Department of Defense where progress has been much slower.

However, we have not paid similar attention to systems that support the development of annual budget requests and there is very poor integration and linkage between the budget formulation systems and the financial accounting systems. Similarly, the linkage between budget systems, cost systems, and performance management systems have been slow to materialize as agencies have tended to put their investment monies into improving their accounting systems. On a day to day basis budget matters still drive decision making in the federal government – almost to the exclusion of other systems – yet, to date, we have not focused on improving the linkage between this most important process and the related data and information in accounting, cost and performance management systems.

- **Gathering data and results about program performance has recently become a much more important element of governmental management, but sometimes the linkage between program performance and budget**

development and accounting and cost systems seems unclear to government managers.

With the advent of the Government Performance Results Act (GPRA), the President's Management Agenda (PMA), and the Program Assessment Rating Tool (PART) federal managers are much more conscious of the need to stress strategic planning, the linkage between plans and budgets and the overall linkage back to program performance. The focus of these three initiatives has thrust the Program Managers to the forefront of the evaluation process since they are ultimately responsible for the success or failure of the programs administered by the federal government. But, in many of our discussion to date, it is clear that government managers need to become better aware of the linkage between accounting, cost information and program performance; between individual employee performance and the performance of the organization; and the need to demonstrate program success by the development, collection and evaluation of effective performance metrics. Our input to date suggests that the CFO, and other financial managers, need to be more aggressive in working with the program managers to achieve better integration of relevant data and information. The CFO and the financial management community now have seats at the decision making table, but they need to make their presence known so that they can add more value to the process.

- **The streamlining and consolidating federal financial management laws and regulations would be beneficial.**

Several CFOs observed that there are many different statutes, regulations, and OMB Circulars that address the same requirements which have evolved over a period of time to address a specific problem at a particular point in time. It would be extremely beneficial to catalogue these requirements and consolidate the directives into one comprehensive statute and one comprehensive Circular.

- **Organizational placement of the CFO, Budget Director and Director of Performance Management activities are handled differently in each agency.**

There is no clear consensus to date among our group on this issue. Some argue that all of these functions should report to one senior Department official since there is clearly linkage among all of these functions. One cannot develop a comprehensive budget package, for example, without information and data from the budget world, the world of accounting and cost data, and the world of strategic planning and performance management. Others argue that just because there is linkage among the functions, organizational responsibility and performance is better achieved by having separate areas of responsibility, and furthermore there is no need to have each department organized in the same manner to achieve a high performing organization.

Some argue that all finance-related functions should be under the CFO but that other related activities, such as performance and strategic planning functions, are best achieved and implemented separately. The issue of Senate confirmation was

also discussed, especially as it relates to the CFO. The consensus, to date, suggests that confirmation of a CFO, for example, is important unless there is a policy decision to reduce the overall number of Senate confirmed positions.

The related issue of a Senate confirmation for the Chief Management Officer (CMO) was discussed with one scenario being that the CMO be Senate confirmed, and all other senior management positions (for example, the CFO, CIO, Budget Director, etc.) reporting to the CMO not be Senate confirmed. Obviously there is a range of organizational options available, and just as obviously some feel very passionate about this issue.

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Mr. Chairman, the Academy welcomes the opportunity to review and analyze this important subject with you over the next several months. As we continue our meetings with the budget, performance management, IG, CIO, procurement and private sector community we feel confident that we will be able to provide you and the Committee with sound recommendations to improve financial management in the federal government.

In addition, Mr. Chairman, the Academy appreciates your leadership and is very excited about the establishment of the Congressional Caucus to Improve Management and Administration. We are committed to assisting in any way we can.

I will be please to respond to any questions you may have.